AGRICULTURAL OUTLOOK DIGEST

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OUTLOOK 73

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Economic Research Service U.S. Department of Agriculture

OUTLOOK '73: REPERCUSSIONS OF FARM-PRODUCT DEMAND

Demand—from consumers, export markets, and other farmers—dominates the farm outlook for 1973. Working in high gear to meet that demand, U.S. farmers will grow more, for higher average prices, than ever before. (See "How farmers will fare," p. 2.)

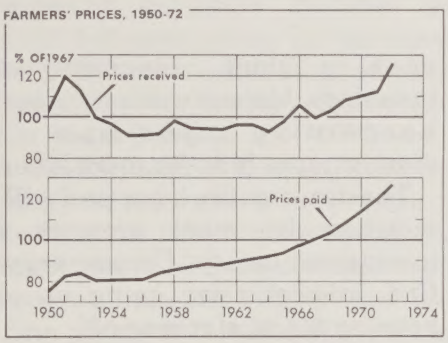
Consumers will have 9½ percent more after-tax dollars to spend this year, thanks to continued economic expansion. Such new dollars, as always, will add still more fuel to the heavy demand for food, especially meat purchases. Food spending—and food prices—are headed for new heights. (See "How consumers will fare," p. 2.)

Foreign consumers are also buying more of our farm goods—not only due to their rising spending power, but this year also to tightened world supplies of feed grains, food grains, protein meals, and meats.

When farmers unhitch their planters this spring, they will have a big boost in planted acreage geared for export markets and domestic feed markets. (See "Export markets strengthen crop outlook," p. 3.) Livestock producers, meanwhile, are attempting to satisfy booming red meat demand to the extent their larger breeding herds will allow. (See "Livestock prospects favorable," p. 4.)

The unparalleled demand for farm products has driven prices up. This will mean a substantial boost to 1973 farm cash receipts, but also ironically, a sharp rise in prices of the crucial feed, seed, and replacement livestock which farmers must purchase from each other, helping to hold net farm income near the 1972 record level.

Higher prices and the need for increased supplies have set the stage for modifications in farm programs. The CCC has been able to liquidate its grain stocks and isn't extending grain loans. Direct Government payments to farmers are dropping over $1 billion in 1973, as programs are modified to encourage larger production of grains and soybeans.



The outcome of expansion efforts for both livestock and crops will probably increase supplies relative to demand during the second half of 1973. But what of the future? Aren't consumers going to continue prospering both here and in other nations? Does the export boom have more years to run? The recent USDA Outlook Conference suggested a tentative answer:

Future Income Gains

Weighing such factors as population, income, production controls, and trade barriers, demand growth between the 1969-71 base period and 1985 is figured strong enough to cause a gradual uptrend in U.S. farm prices, a projected average annual increase of 2-3 percent, with some dips and bursts along the way. (Obviously, recent developments have placed current prices way above this long-term trend.)

In addition to better prices, farm production is projected to rise long-term, further boosting gross farm incomes. Both crop and livestock receipts will get the green light.

With plenty of demand, livestock production should grow and product prices likely trend upward for the next several years. Even poultry and egg prices may move up a bit from the average of recent years. But, if the big buildup in cattle marketings develops, as seems likely, the trend to higher meat animal prices could be interrupted in the mid 1970's.

As for crops, if acres harvested continue unchanged or perhaps edge up a little as the data suggest, prices of major field crops could increase some from 1969-71 levels.

Farm costs will also observe the green signal, however, and follow right along with rising gross income. These larger outlays could limit net income to a gradual rise over the next dozen years.

Exports Top Early Hopes

If we can move the goods that our trading partners have bought or will want to buy between now and June 30, we will export an estimated $11.1 billion worth of farm products for 1972/73.

This would be well over the $10 billion predicted last November and $3 billion more than the prior season's record. This increase equally reflects higher prices and greater volume.

HOW FARMERS WILL FARE IN 1973

Income from farming this year will approach the $19.2 billion realized in 1972, which was well over all previous years. And given the expanding economy of 1973, income to farm people from nonfarm sources should continue trending upward.

Farmers, like other consumers, will have to endure higher prices and pay more social security taxes. Interest rates may be up slightly, and land values, a critical index both for farmers seeking to expand and those seeking to sell out, are under strong upward pressure.

Higher prices and larger marketings will brighten the gross income picture. Prices received for both crops and livestock may average 5 percent or more above last year's record levels. The volume of livestock marketings could rise slightly, while that of crops may be up a tenth.

With rising hog marketings, continued larger fed cattle marketings, and major grain and oilseed acreage expansion, prospects are for lower crop and livestock prices in the second half.

Gross income gains may hit $3½-billion, even with a drop of more than $1 billion in Government payments. But higher costs may gobble up added income, and realized net farm income will again be in the $19 billion range.

Farm families have more to show for their efforts. In 1972, income from farm sources soared $2.1 billion and farm people got $1.6 billion more from nonfarm sources. So disposable personal income per farm resident moved up to $3,180, more than four-fifths of the level achieved by nonfarm people in 1972.

HOW CONSUMERS WILL FARE THIS YEAR

Consumers will continue to prosper in 1973. They will enjoy another big boost in after-tax income, although they are carrying heavier installment debt and face higher prices, particularly for food, and higher interest rates for home-buying.

Disposable personal income, bolstered by an increase in employment and wages and a large income tax refund from 1972, will be up almost 9½ percent. Phase III has been assigned the job of keeping hikes in both prices consumers pay and the wages they earn within reasonable bounds this year. However, given the less restrictive nature of Phase III and continued boom conditions, Phase II's success in keeping overall price inflation to 3 percent last year will be more difficult to repeat.

Wage guidelines also will be under plenty of upward pressure. Higher retail prices and a sharp rise in consumer indebtedness are expected to cool durable purchasing from 1972 rates, but manufacturers are taking up the slack by investing more in plant, equipment, and inventory. Unions will be in a better bargaining position as management bids for more labor.

The draw on the labor pool will be matched by more pressure for investment money. Consumers will find interest rates going up and housing starts slacking off.

Food Price Crunch

One of the most serious challenges to Phase III will be the area of food prices, expected to rise an estimated 6 percent this year. Much of the retail rise will be reflected in higher farm prices, but the portion allocated to food marketing costs will likely rise by more than last year's 2.4 percent. Livestock prices are under the most upward pressure: Food prices rose 4.3 percent in 1972; excluding prices of beef and pork, food prices were up only 2.7 percent.

Demand for red meats, especially beef, together with cyclically short supplies of pork, has raised retail meat prices to record levels. Reduced supplies have pushed egg prices much higher than the bargain levels of a year ago. Broiler prices are rising at a more rapid pace than a year ago, reflecting currently reduced supplies, but consumer resistance may slow further price increases for fish.

Prices of crop-related foods will generally rise less rapidly. However, seasonally lower fresh vegetable supplies early this year as well as reduced deciduous fruit and processed vegetable supplies until new crops are harvested will boost fruit and vegetable prices. A huge citrus harvest has held fresh orange and orange juice prices near 1972 levels, however.

What Does Food Cost?

What differences have the year-to-year rises in food prices made in family budgets? Figures suggest that even with ever-higher prices, food has a smaller role in personal spending. Food spending in 1972 took 15.6 percent of per capita disposable income, slightly less than a year earlier, and down from 19.3 percent a decade ago.

LIVESTOCK PROSPECTS OPTIMISTIC

Red meat output may rise a little this year. Less pork last year more than offset rising beef output, and total red meat output slipped. Further increases in beef output are in prospect for 1973, and there is likely to be at least as much pork as in 1972, with second-half gains offsetting reductions in the first half.

Cattle

Only moderate gains in beef output are expected over the next several months. January 1 feedlot inventories in 23 feeding States were up 4 percent from a year earlier. Cattle feeders indicated intentions to market 7 percent more cattle this winter than last, and spring marketings also are likely to be larger.

Fed cattle prices are not expected to change substantially in the first half, although occasional soft spots will develop. Choice steers at Omaha brought over $43 in late February. Higher feed costs this year may lead to lighter slaughter weights.

Feeder cattle prices are expected to remain high in 1973. In February, yearling feeder steers at Kansas City climbed above $50. There will likely be little seasonal rise this winter and spring but prices may continue near recent levels if there is no substantial weakness in fed cattle prices. There are enough feeder cattle around to allow larger placements this winter and spring and provide larger output of fed beef in the second half.

Hogs

Hog prices advanced more than $8 per 100 pounds in 1972, averaging $26.75 for the year. Barrows and gilts at 7 markets exceeded $36 in late February, up nearly $12 from a year ago. Prices probably will dip later in the winter as slaughter increases seasonally, but stay well above year-earlier levels.

Hog slaughter in the first half of this year will probably be down a little from a year ago. On December 1, farmers held 3 percent fewer hogs that are likely to be marketed during the first half. Much of the decline will be in the first quarter.

Second-half hog slaughter will be larger than in July-December 1972 because the spring pig crop this year is estimated to be up 7 percent.

With larger pork supplies in the second half, prices next fall likely will run below a year earlier but continue well above July-December 1971, when they averaged near $20 per cwt.

Poultry and Eggs

Consumer demand for poultry products will be strengthened by growing consumer incomes and high red meat prices. In the second half, though, increasing red meat supplies will mean more competition for poultry meats.

Broiler, turkey, and egg prices are likely to hold above 1972 levels for most of the year, but cost headaches continue. Feed costs are expected to stay well above 1972, at least until firm prospects for the 1973 crops are known, and costs of other items keep on rising. Production costs for the poultry and egg sector will top 1972's high level.

Broilers

The broiler industry is feeling the crunch of feed prices this year. Last year, broiler meat output in federally inspected plants jumped 7 percent, but market demand was sufficient to raise prices after a spring glut, and wholesale prices averaged 28 cents a pound for the year.

Although broiler prices were above a year earlier last fall, so were feed costs, and producers started cutting back in December. Broiler chick placements for winter marketings were off about 2 percent, and high feed costs probably will hold broiler output below or near year-earlier levels through spring and summer. To top it off, gains in pork supplies may dampen broiler prices in the last half of 1973.

Turkeys

Turkey producers in December reported plans to raise 4 percent more birds this year, despite high production costs. The turkey crop was up 7 percent to a new record last year, yet fast-paced use maintained turkey prices.

Prices are running moderately over 1972 levels currently, even with further expansion in first-half output. But second-half prices may not match last fall. There will be more turkey and a larger supply of competing red meats.

Eggs

With egg output down this year, prices will average higher. In 1971 and 1972, output in the neighborhood of 200 million cases kept average New York wholesale prices for Grade A eggs to a low 35 cents a dozen.

The downtrend in egg output which began last April continues. The January laying flock was 7 percent below January 1972. Output early this year will be down 5 percent or more.

Little further gain in the rate of lay is likely from the use of Marek's disease vaccine, which increased productivity for 2 years. But higher prices will encourage lighter culling and more forced molting, so laying flock size and output may work back up to 1972 levels by the close of the year.

Egg prices rose sharply in late 1972 and are way over last winter's depressed levels. Markets are expected to follow the normal pattern of picking up strength until Easter, easing off, then rising into summer.

EXPORTS STRENGTHEN CROP OUTLOOK

Feed

The 1972/73 feed grain market began with a bang.As the year opened, exporters were clamoring for the new crop, but wet fall weather retarded the U.S. harvest, and attempts to send record amounts of wheat, feed grains, and soybeans to ports for export occasionally jammed the distribution system.

Feed grain prices have already soared: February prices received for corn and sorghum averaged 26 and 74 cents a bushel over February 1972 levels.

Although a joy for growers with grain to sell, recent price levels are a headache for feeders, taking much of the bloom off high livestock prices. Supplies of feed are critical in grain-deficit livestock producing areas, with the transportation bottlenecks and fuel shortages.

For the 1972/73 season, feed grain use is estimated up 7 percent domestically to 177 million tons and up 22 percent for exports, to a record 33 million tons. The export figure includes shipments of a solid billion bushels of corn, 26 percent over last season, and 145 million bushels of grain sorghum, up 18 percent.

This fast-paced use has been gobbling up supplies, and the carryover next fall could drop about a fourth to 36 million tons. That carryover will largely be in private hands, since the CCC right now is in the process of selling off nearly 400 million bushels of its own grain inventory, and isn't renewing loans on grains this year.

With the belated harvest finally over, and with the CCC grain sales underway, the 1972/73 feed grain sales pattern is being shifted heavily into the winter and spring months. The March 15 planting intentions report will provide results of a wrap-up survey to determine the final size of the 1972 feed grain crop, in addition to the regularly scheduled report of what farmers intend to plant for the 1973 crop.

That survey will undoutedly show farmers planting much more grains and soybeans this spring than last year. Following an earlier intentions report that showed prospective acreage up 6 million acres, or 5 percent, from 1972 plantings in the 35 States surveyed, the Government modified the feed grain program to encourage further acreage increases.

Even with this bigger prospective crop, the certainty of a reduced carryover and the current breath-taking rate of consumption will help maintain strong feed grain prices during the spring.

Soybeans

Continued strong soybean demand will keep supplies tight and prices record-high at least through the balance of this crop year.

Soybean and soybean meal prices have soared since last fall to about \$7 a bushel and \$240 a ton in late February . Soybean oil prices (crude Decatur) remained well below year-earlier levels, around 10 cents per pound, until February, when recently rekindled markets sent prices as high as 14 cents.

Until a somewhat more optimistic picture emerges with respect to world protein feed supplies—particularly the Peruvian fish catch—prices of soy-bean meal probably will continue to fluctuate in a wide range, as varying information becomes available on the Peruvian fishing outlook, U.S. acreage intentions, and the 1973 Brazilian and Argentine oilseed crops.

Current-season supplies were estimated at 1.35 billion bushels last December, about 6 percent above the previous year. As in the past 3 years, the entire crop is expected to be utilized. Carryover stocks next September are forecast near a minimal 60 million bushels.

Recent market and set-aside program developments could encourage farmers to boost 1973 acreage more than the 5 percent they talked about in January. If so, new-season supplies might top the record 1.46 billion bushel mark of 1969/70.

The tight supply is limiting domestic crushings this year to about 4 percent more than last season. Whole bean exports likely will increase around 14 percent approaching the ½-billion bushel mark. Exports of soybean oil may total 1.5 billion pounds, about 8 percent over last year, and meal exports are estimated at 4.2 million tons, up over a tenth.

Cotton

Cotton demand is currently stronger on the export than the domestic side. Domestic mill use is lagging mainly because cotton has been relatively costly for 2 seasons in a row, and supplies of better qualities most in demand have been short. Despite the huge 1971/72 supply of 16 ¾ million 480-lb. net weight bales, prices are running only a little under those received for last season's relatively small outturn. These factors have resulted in use of more man-made fiber than ever in domestic cloth production.

High prices, though, are proving little deterrent to cotton exports. In this year when most everything we grow seems to be needed in some other quarter of the globe, cotton exports are picking up. Overall cotton production abroad again is less than expanding overall consumption this season, upping trade needs. On top of the favorable U.S. export outlook, China has reportedly just negotiated a sizable purchase, upping total exports to an estimated 4½ million bales this season.

Cotton supplies could be a little larger next season. Given recent planting intentions and program free-ups, farmers might harvest about a million less bales than the 13½ million of 1972. But the cotton carryover will be up this summer, likely to about 4¾ million bales.